

Message Text

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ACTION EB-08

INFO OCT-01 AF-08 EUR-12 ISO-00 ABF-01 FS-01 CIAE-00
DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01
PRS-01 SP-02 SS-15 USIA-06 AID-05 COME-00 FRB-03
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-04
CEA-01 /100 W

-----121331Z 012244 /44

R 111300Z MAR 77

FM AMEMBASSY MAPUTO

TO SECSTATE WASHDC 5562

INFO AMCONSUL CAPE TOWN

AMEMBASSY DAR ES SALAAM

AMEMBASSY AMEMBASSY LILONGWE

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUSAKA

AMEMBASSY MBABANE

AMEMBASSY PRETORIA

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CAPE TOWN FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, PINT, MZ

SUBJECT: BANKERS COMMENT ON MOZAMBIQUE DECISION NOT TO DEVALUE ESCUDO

REF: MAPUTO 0222 (NOTAL)

SUMMARY: LOCAL BANKERS COMMENT THAT MOZAMBIQUE HAD MORE TO LOSE
THAN TO GAIN FROM DEVALUATION. DEPENDENCE ON IMPORTS AND TRANS-
ACTIONS WITH SOUTH AFRICA WEIGHED HEAVILY IN THE DECISION. POSSI-
BLE REASONS WHY GPRM TOOK ONE WEEK TO REACH DECISION WERE GIVEN
AS LACK OF EXPERIENCE WITH DEVALUATIONS AND DEARTH OF STATISTICS
UPON WHICH TO EVALUATE OPTIONS. END SUMMARY.

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1. EMBOFFS TALKED TO TWO LOCAL COMMERCIAL BANKERS REGARDING
GPRM DECISIONS NOT TO FOLLOW THE RECENT PORTUGUESE DEVALUATION.
DR SILVA MAIRA, DIRECTOR OF THE LOCAL BRANCH OF BANCO COMERCIAL
DE ANGOLA (PROTECT, AND JOHN GAIT, DIRECTOR OF BANCO STANDARD
TOTTA DE MOCAMBIQUE (PROTOCT), GAVE VERY SIMILAR COMMENTS ON
FACTORS IN THE DECISION. FOR REASONS CITED BELOW, THEY SAID THERE

WERE NO ECONOMIC REASONS FOR GPRM TO DEVALUE.

A. IMPORTANCE OF IMPORTS TO MOZAMBIQUE: GPRMS PLANS TO MAKE IN THE SHORT TERM SEVERAL LARGE PURCHASES OF IMPORTED FOODSTUFFS AND DEVELOPMENT EQUIPMENT. DEVALUATION NOW WOULD INCREASE COSTS GREATLY, AND IN EFFECT WOULD DEVALUE AID MONEY RECEIVED. IN ADDITION, MOZAMBIQUE'S DECLINING EXPORTS WILL NOT GENERATE SUFFICIENT REVENUE TO COVER INCREASED IMPORT COSTS.

B. EFFECT VIS-A-VIS THE RAND: FOLLOWING THE PORTUGUESE ESCUDO WOULD HAVE MEANT A DEVALUATION AGAINST THE SOUTH AFRICAN RAND. BECAUSE OF THE GROWING DEPENDENCE OF THE ECONOMY IN INCOME FROM TRANSHIPMENT OF SOUTH AFRICAN GOODS AND FROM MOZAMBIKAN MIGRANT MINE LABOR, A DEVALUATION AGAINST THE RAND OF THE MAGNITUDE OF PORTUGAL'S WOULD HAVE SEVERELY HURT MOZAMBIQUE.

C. LOCATION OF FOREIGN EXCHANGE HOLDINGS: SINCE GPRM IS THOUGHT NOT TO HAVE VERY MUCH (IF ANY) OF ITS FOREIGN EXCHANGE HOLDINGS IN PORTUGUESE BANKS (OR IN PORTUGUESE ESCUDOS), IT MOST LIKELY DID NOT FEEL COMPELLED TO FOLLOW THE PORTUGUESE DEVALUATION. FOR THIS REASON, GPRM ALSO MAY HAVE SENSED AN OPPORTUNITY TO DEMONSTRATE ITS ECONOMIC INDEPENDENCE FROM THE FORMER METROPOLE.

2. SILVA MAIA ALSO POINTED OUT THAT THE DAILY ADJUSTMENTS TO THE ESCUDO RATE, IF GPRM DESIRES, COULD ACCOMPLISH IN PART WHAT AN OFFICIAL DEVALUATION WAS DESIGNED TO DO. HOWEVER, THE TWO BANKERS DISAGREED AS TO WHETHER GPRM IN SHORT TERM INTENDS DAILY ADJUSTMENT PROCESS TO RESULT IN FURTHER DECLINE FROM STATED BASIC DE-TERMINATE RATE OF 32.9 ESCUDOS TO THE DOLLAR. GAIT THOUGHT ADJUSTMENTS IN NEXT FEW MONTHS WOULD RESULT IN A 5-7 PERCENT DECLINE IN ESCUDO VALUE, WHILE SILVA MAIA THOUGHT RATE WOULD NOW REMAIN QUITE STABLE. GAIT ALSO QUESTIONED WHETHER MOZAMBIQUE ACTUALLY HAD 4.2 LIMITED OFFICIAL USE

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MONTHS OF FOREIGN EXCHANGE RESERVES AS ANNOUNCED BY GPRM; HE THOUGHT THE GPRM CLAIM TO HAVE HAD DOLLARS 126 MILLION IN RESERVES IN NOV. 76 MAY ACTUALLY HAVE BEEN A STATEMENT OF EXPECTED FOREIGN EXCHANGE RECEIPTS, RATHER THAN HOLDINGS AVAILABLE AT THAT TIME.

3. NEITHER OF THE TWO BANKERS KNEW WHERE MOZAMBIQUE HOLDS ITS FOREIGN EXCHANGE, NOR IN WHAT CURRENCIES. BOTH AGREED THAT IT IS UNLIKELY THAT MOZAMBIQUE HAS ANY SUBSTANTIAL RESERVES IN PORTUGUESE ESCUDOS, OR IN PORTUGUESE BANKS, HOWEVER.

4. SILVA MAIA THOUGHT THAT THE WEEK IT TOOK GPRM TO DECIDE NOT TO DEVALUE RESULTED FROM THREE FACTORS:

A. GPRM HAD NO PREVIOUS EXPERIENCE WITH DEVALUATIONS, AND WAS UNSURE OF THE CONSEQUENCES AND ACTION IT OUGHT TO TAKE:

B. THE DEARTH OF ECONOMIC STATISTICAL INFORMATION CAUSED DELAYS IN THE EVALUATION OF OPTIONS: AND

C. MOZAMBIKAN FINANCIAL OFFICIALS MAY HAVE BEEN SUSPICIOUS OF THOSE PORTUGUESE CONTRACT ADVISORS IN THE BANK OF MOZAMBIQUE WHO WERE RECOMMENDING FOLLOWING THE PORTUGUESE DEVALUATION. DE PREE

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